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SIPDIS

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TAGS: [ENRG](#) [PREL](#) [PGOV](#) [UK](#)
SUBJECT: USG AND MEXICAN DELEGATIONS DISCUSS AREAS FOR
COLLABORATION ON THE MARGINS OF THE LONDON ENERGY
MINISTERIAL

Classified By: Economic Counselor Kathleen Doherty for reasons 1.4 (b)
and (d)

1. (C) Summary. U.S. Deputy Secretary of Energy Jeffrey Kupfer and Mexican Deputy Secretary of Energy Mario Gabriel and their accompanying delegations discussed reforms in Mexico's oil sector, areas of potential collaboration, and progress on renewable energy strategies on December 19 on the margins of the London Energy Ministerial. Both officials also highlighted the 12th biennial International Economic Forum (IEF) Ministerial, to be held in Mexico in May 2010. Gabriel noted that Mexico enacted regulatory reforms in the oil sector during the past year to provide more flexibility in the area of international oil service contracts and to facilitate international investment. Deputy Secretary of Energy Gabriel was receptive to pursuing a bilateral dialogue on energy issues. He also called for greater collaboration in the area of energy efficiency and discussed Mexico's increased focus on renewable sources of energy. End summary.

Reform Efforts in Oil Sector

2. (C) In response to a question on general economic reforms, Mexican Deputy Secretary of Energy Mario Gabriel told Deputy Secretary Kupfer that the Mexican Government took steps in 2008 to improve the flexibility of the oil contracting process, particularly in the area of international oil service contracts. These reforms also included broader regulatory authority and independence for Mexico's National Oil Company (Pemex), which Gabriel said will improve international investment opportunities for foreign companies. Specifically, Pemex is reforming its tender process to link results to performance, allowing for more flexibility for international oil companies (IOCs) to do business. Deputy Secretary Gabriel called the response from many international companies as "enthusiastic" about these regulatory changes, although they are eager to see the new model contracts which Mexico hopes to have ready by mid-2009. When asked about fiscal energy reform, Mexican Assistant Secretary of Energy for International Affairs Aldo Flores commented that 40 percent of Mexico's revenues come from oil. Everyone agreed that they are interested in seeing Mexico's oil production rates increase in 2009. Specifically, Flores noted that Mexico would like to recover 500,000 to 600,000 barrels per day (bpd) of lost production.

Areas for Collaboration

3. (C) U.S. delegation member and State Department Deputy Assistant Secretary for Energy, Sanctions and Commodities Doug Hengel asked Gabriel whether initiating an on-going dialogue with Mexico on energy issues would be mutually beneficial in tackling some of these tough energy challenges. Gabriel was receptive to this idea and added it could be a productive format for accelerating bilateral trans-boundary

talks. He added both the Mexican central government and local governments have technical assistance agreements with California and Texas. He mentioned deep water drilling and technical assistance as potential areas for further discussion. He also stressed that Mexico would be interested in engaging the U.S. on energy efficiency issues, not just oil. Noting that an energy dialogue would best be kept low profile, Gabriel welcomed further discussion on this issue once the new U.S. administration is in place. DOE Acting Assistant Secretary suggested keeping the agenda broad enough to encompass the ties between the energy sector and Mexico's Federal budget.

Renewable Energy Sector

¶4. (SBU) Gabriel mentioned that Mexico is making reforms to support different types of renewable energy, especially wind energy. He highlighted hydro and solar power as other areas of potential. A/S Flores added that Mexico is partially subsidizing these efforts through a special fund, but is working with the Treasury to develop a long-term strategy to promote increased competitiveness and market penetration. He added the Mexican Government must carefully evaluate how to invest its resources in the alternative energy sector over the next year. Deputy Secretary Kupfer added the U.S. is very aggressive in the renewable energy sector and expects this trend to continue with the new administration.

¶5. (U) The Department of Energy has cleared this cable.

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